

CITY OF TEMPE

Biennial Budget

For the Fiscal years beginning July 1, 2001 through June 30, 2003



***Biennial Budget
FY 2001-03***



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GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished
Budget Presentation
Award*

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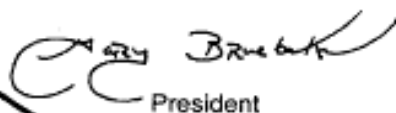
City of Tempe,

Arizona

"An Outstanding Communications Device"

For the Biennium Beginning

July 1, 1999


President

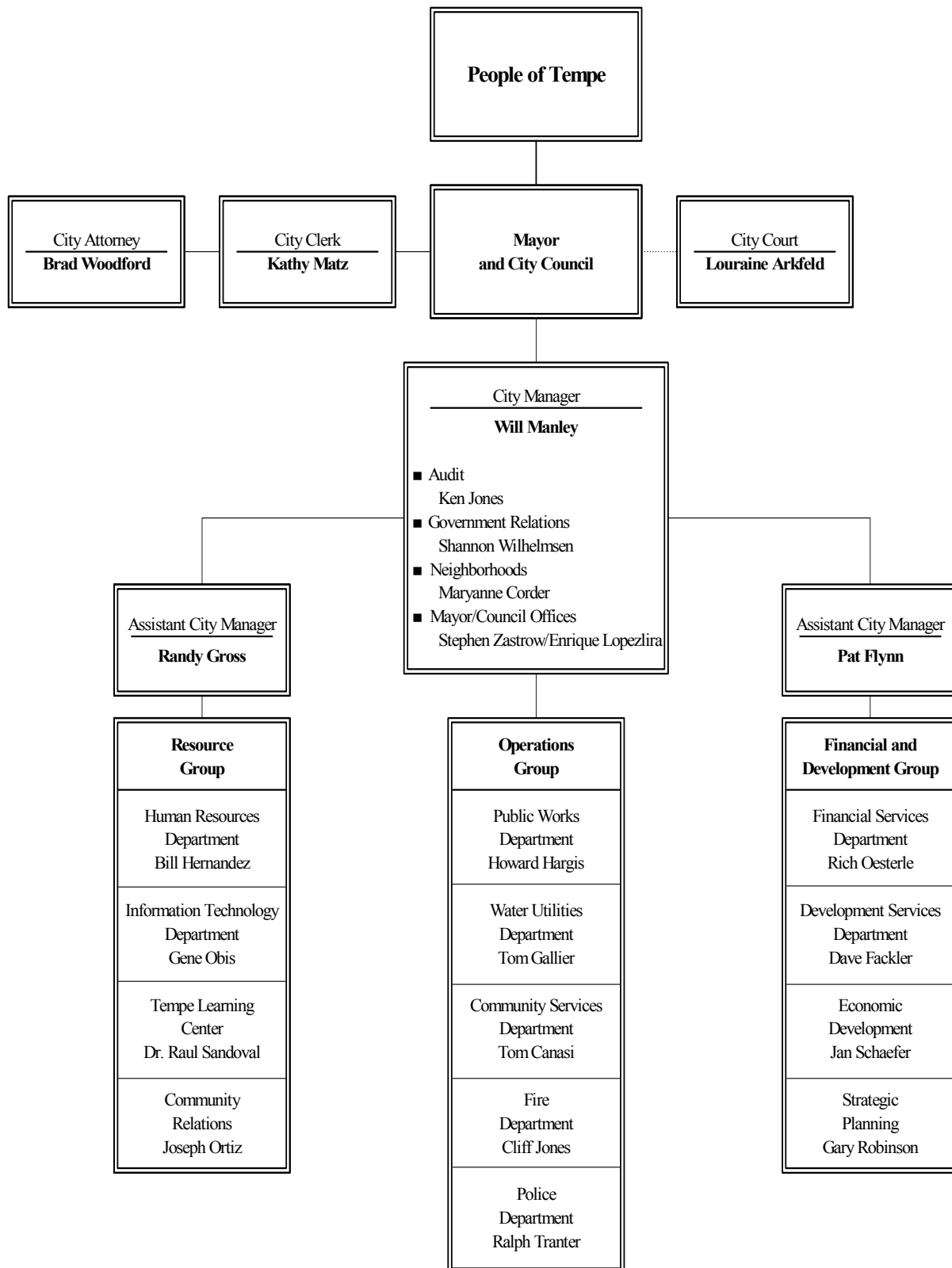

Executive Director

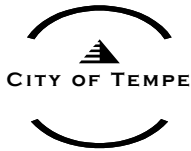
The Government Finance Officers Association of the United States and Canada (GFOA) presented an Award for Distinguished Budget Presentation to the City of Tempe for its annual budget for the fiscal year beginning July 1, 1999.

In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan and as a communications medium.

The award is valid for a period of one year only. We believe our current budget continues to conform to program requirements, and we are submitting it to GFOA to determine its eligibility for another award.

City Organization Chart





Budget Message

June 20, 2001

To the Honorable Mayor and City Council:

Transmitted herein is the City's FY 2001-03 biennial operating budget, the second two year budget for the City of Tempe. The biennial budget has encouraged a longer term view of financial planning and shifted the emphasis from the process itself to a more careful examination of our resource allocation choices. As an additional benefit, moving to a budget process that occurs every other year rather than each year has allowed City departments greater time to focus on service delivery and program improvements.

Budget in Brief

The adopted operating budget for FY 2001-02 (Year 1) totals \$234.0 million, an \$11.8 million or 5.3% increase over FY 2000-01. The operating budget increases in FY 2002-03 (Year 2) by \$6.5 million or 2.8% to \$240.5 million.

Several factors contribute to the changes in the budget from a year ago, as highlighted in the following:

- ♦ **Supplemental Funding.** Over the course of this two-year budget, an additional \$9.0 million is included across all funds for program expansions and new initiatives to address the City's strategic goals and priorities. Of this new funding, \$1.7 million will address needs in our public safety and criminal justice programs, as well as community services, reflecting the City's continuing commitment to youth and social service programs.
- ♦ **Inflation and related costs.** Inflation, projected at 2.0-2.5%, coupled with projected population growth of 1.0% annually over the biennium, contribute to budget increases.

Police Staffing. In Year 1 of the biennium, 12 new police positions were approved for public safety. These positions were primarily for investigations and enhanced neighborhood patrol; additionally, costs associated with 26 previously grant funded police positions were absorbed in the operating budget.



Biennial Budget Total Financial Program		
	FY 2001-02	FY 2002-03
Operating Budget	\$234,015,370	\$240,461,459
Percent Change	5.3%	2.8%
Capital Improvements	\$85,541,430	\$130,638,313
Percent Change	26.9%	52.7%
Total Financial Program	\$319,556,800	\$371,099,772
Percent Change	10.4%	16.1%

Biennial Operating Budget by Fund		
	FY 2001-02	FY 2002-03
General Fund	\$125,427,279	\$131,658,405
Special Revenue Funds		
Transportation	8,135,751	8,447,753
Transit	25,044,850	24,606,654
Rio Salado	1,353,091	1,434,267
Performing Arts	317,048	341,472
CDBG/Section 8	7,633,824	7,705,907
Debt Service	11,238,729	11,518,082
Enterprise Fund		
Water/Wastewater	42,021,240	41,333,191
Sanitation	10,515,860	10,788,733
Golf	2,327,698	2,626,995
Total Operating Budget	\$234,015,370	\$240,461,459

Budget Highlights

Total Financial Program

The following tables depict the adopted biennial total financial program (operating and capital improvements budgets) and the operating budget detailed by fund. The size of our total financial program increases over the biennium due to the light rail component in transit and expansion of the water/wastewater program budgeted within the Capital Improvements Program (CIP).

Personnel

Total proposed full-time positions equal 1,727 for FY 2001-02 and 1,734 for FY 2002-03. This represents a net increase of 57 full time supplemental positions in Year 1 and 5 positions in Year 2, and 11 full time positions associated with CIP operating impacts during the biennial budget. Additionally, in Year 1, costs associated with 26 previously grant funded police positions were absorbed in the operating budget.

Pay-As-You-Go

Total “pay-as-you-go” financing within the Capital Improvements Program include \$17.6 million (FY 2001-02) and \$18.7 million (FY 2002-03) million from operating revenues, reflecting a \$12.5 million decrease and \$1.1 million increase over each of the preceding year’s “pay-as-you-go” financing.

Capital Improvements

The Total Capital Improvements Program is \$85.5 (FY 2001-02) and \$130.6 (FY 2002-03) million, up \$18.1 and \$45.1 million from each of the previous year’s programs. Highlights of the biennial capital program include:

FY 2001-02

- Initial funding for light rail financing (\$23.3 million-federal share)
- Funding for Water and Wastewater projects (\$19.8 million) including funding for new production wells (\$1.7 million), continued funding for 91st Avenue expansion (\$10.0 million), and funding for Kyrene wastewater plant and Southern Avenue Interceptor enhancements (\$4.4 million)
- Initial funding for the AZ Cardinals Stadium (\$13.7 million)
- Continued funding for Transportation Improvements (\$5.3 million)
- Funding for Recreation Improvements (\$4.1 million) including continued funding for soccer field construction (\$1.0 million), initial funding for North Tempe Multigenerational Center (\$1.0 million), and continued funding for park and recreational improvements (\$2.1 million)
- Continued funding for Rio Salado Development (\$3.6 million)
- Continued funding for a downtown fire station (\$1.3 million)
- Initial funding (land purchase) for a Criminal Justice Center (\$0.9 million)



FY 2002-03

- Continued public safety automation efficiencies and radio replacement conversion (\$3.0 million)
- Continued funding for the North Tempe Multigenerational Center (\$3.7 million)
- Continued funding for park and recreational improvements (\$2.6 million)
- Continued funding for Transportation Improvements (\$6.0 million)
- Funding for Transit Light Rail (\$53.7 million including \$23.7 million of federally shared money)
- Continued funding for Rio Salado Development (\$2.1 million)
- Funding for water wastewater projects (\$43.8 million) including funding for water plant expansion and process improvements (\$13.9 million), continued funding for 91st Avenue wastewater expansion and transmission (\$19.2 million) and funding for Kyrene wastewater plant expansion and Southern Avenue Interceptor rehab (\$9.5 million)

As the graphs below depict, the operating budget represents 73% of the FY 2001-02 total financial program, decreasing to 65% in FY 2002-03 as the size of our CIP budget falls. Department budgets make up just over 80% of the citywide operating budget.

Revenue Considerations

The City will modify revenue as needed in several areas for FY 2001-02.

Water/Wastewater

For FY 2001-02, water and sewer rates will be reviewed to ensure full cost recovery and to maintain adequate reserves for capital needs.

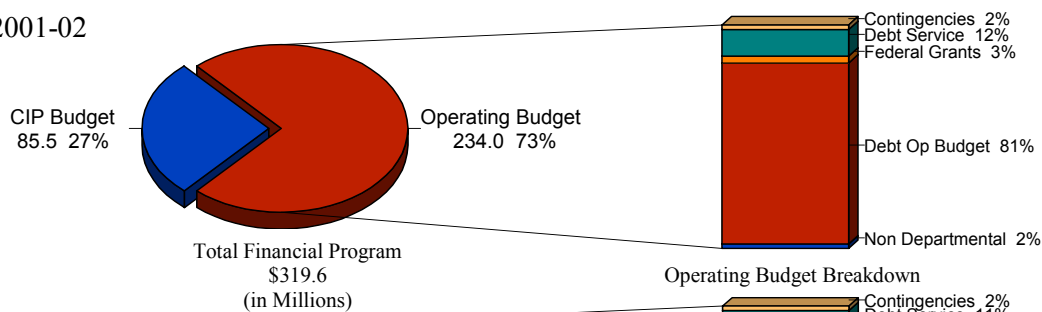
Sanitation Fees

Upon finalizing the FY 2001-02 financial report in the Fall of 2001, sanitation fees will be reviewed to determine if a fee adjustment is required. The last sanitation fee adjustment of 3% was implemented in January 1998.

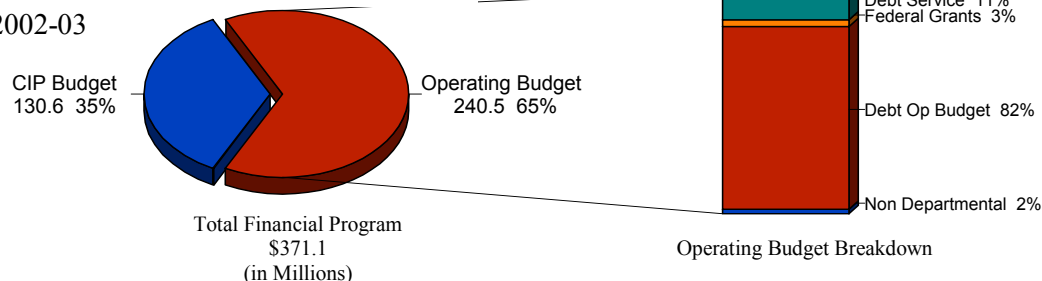
Development Fees

For FY 2001-02, Water and Sewer development fees will be reviewed to ensure new development pays its fair share of infrastructure development.

FY 2001-02



FY 2002-03



Golf Fees

Golf rate reviews will be conducted annually to ensure that the fund remains self sufficient. Fees for non-residents changed in June 1999, increasing by \$1 per nine holes for the summer season.

Other Considerations

Aside from the predicted downturn in the economy over the next 2-3 years, our state-share of locally distributed state income, sales and vehicle license tax revenues are projected to decline as the 2000 Census shows Tempe's expected declining percentage of statewide population.

Additionally, we will continue to review charges for fees for service on an ongoing basis and will bring them to Council, as necessary.

Financial Assessment

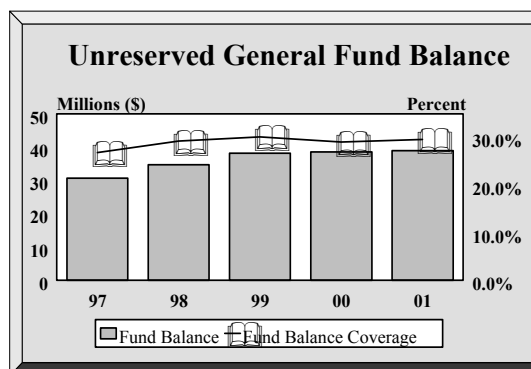
Tempe continues to be financially strong. Over the years, through sound fiscal management, Tempe has positioned itself well to weather economic downturns, create a positive atmosphere for economic development, and provide greater flexibility on budgetary issues.

Fund Balances

One measure of a city's financial strength is the level of its fund balances (i.e., revenues exceed expenditures). The City's estimated unrestricted fund balance in the General Fund will approximate \$39.0 million as of June 30, 2001. This balance represents 29% of FY 2000-01 total General Fund revenue. Our recommended guideline for General Fund fund balance coverage is a minimum of 25% of General Fund revenues. The City's Enterprise funds (Water/Wastewater, Golf, and Sanitation programs) will have a combined fund balance of approximately \$60 million at the end of FY 2000-01.

Financial Reserves

Another indicator of a city's financial strength is the level of its financial reserves. Over the years the City has established financial reserves to



absorb unforeseen liabilities. The City currently has self-insurance reserves totaling \$9.4 million, monies that will protect the City against potential claims. Additionally, the City approximates \$6.3 million in debt service reserves at June 30, 2001, monies that will help stabilize and fund future debt service obligations. Included in each of the biennial budget years and financed from current revenues are \$4.6 million of contingency funding for unanticipated emergencies. Finally, the City has established a "rainy day reserve" of \$8.0 million.

Bond Ratings

The City's bond ratings are further evidence of its financial strength. Tempe's general obligation bonds are currently rated AAA by Fitch, Aa1 by Moody's and AA+ by Standard & Poor's. Such rankings mean the City's bonds are considered to be of excellent investment quality, meaning lower interest rates on bonds with corresponding lower interest payments. Having solid financial policies and strong financial reserves are principle reasons for these excellent bond ratings.

Fitch	December 2000	AAA
Moody's	April 1997	Aa1
Standard & Poor's	February 1992	AA+



Development Activity

The Elliot Road corridor continues with solid economic activity. We have seen several new major retail establishments and restaurants open in this location, further enhancing the City retail and sales activity there. In fact, the Elliot Road corridor generated \$13.4 million of local sales tax revenue for the City in FY 2000-01.

Another prosperous development within the Elliot Road corridor is the Autoplex. With a planned capacity of 15 auto dealerships, plus other ancillary businesses, the Autoplex represents a significant part of the City's financial future, given the sizable sales tax and property tax base each dealership brings to the community. We currently have nine auto dealerships with fifteen vehicle lines operating in the Autoplex.

Tempe continues to attract new companies and new development. Last fiscal year, city staff worked with 40 companies that created an estimated 1,500 jobs by moving into or reinvesting in Tempe. Job growth was distributed among several areas of Tempe including the ASU Research Park on the East Side, the Fountainhead Corporate Park in northwest Tempe, several developments in South Tempe along the I-10 corridor, and in Downtown Tempe. Downtown Tempe is also the site of a major mixed-use development called The Brickyard on Mill, which is comprised of three buildings-the seven-story Orchid House, the six-story Bank of America Building, and the two-level Artisan Court. These projects add loft-style residential living, additional retail and office opportunities to the Downtown.

A number of new developments are also underway at Tempe Town Lake. The first phase of Hayden Ferry Lakeside, a 1.6 million square foot mixed-use project, is under construction with a Class A, eight story office building to be completed in the summer of 2002. In addition, the 136 condominium project, also under construction, will add new options for urban living in Tempe. The city broke ground on a new marina that will provide easy launch areas for

boats to take advantage of recreational opportunities on the lake, and the Tempe Performing Arts Center is in design and will be built near the west dam on the south bank of Tempe Town Lake.

Tempe continued to build on its reputation as a "Tech Oasis". While Tempe accounts for 3% of the state's population, over 17% of Arizona's high tech companies are located in Tempe. Two Tempe zip codes, 85281 and 85282, have more technology companies than any other location in the state. Downtown Tempe, in particular, attracts companies that desire a "live, work, play" environment.

Favorable Development Activity

⇒ **Commercial Development**

⇒ **Job Growth**

Overall, FY 2000-01 building permit valuation totaled more than \$262 million. This number includes nearly \$215 million worth of investment in commercial, industrial, and office developments. Residential construction, valued at over \$29 million, was significant because of Tempe's scarce supply of undeveloped land. The remainder of the \$262 million was invested by schools, government, and churches.

Residential development in Tempe is changing, due to the addition of loft-style developments in the Downtown and Rio Salado areas and the limited area remaining for residential growth. Commercial activity has been steady reflecting dividends both from our own economic development initiatives and programs, and the favorable economic climate in the metro Phoenix area. Permit activity overall is expected to continue to level off over the next year after very strong growth in the mid-to-late '90s.



The projection is for continued fiscal strength and economic development success. Notwithstanding this favorable economic outlook, we remain mindful of the cyclical nature of the economy.

Major Policy Considerations

Budget appropriation choices were made within the context of the City's Comprehensive Financial Plan (Debt Management Plan & Long-Range Financial Capacity), Council Budget Policies, and Strategic Issues Plan.

Comprehensive Financial Plan

Debt Management Plan

The favorable bond ratings are due not only to having solid fund balances and reserves, but also result from adoption of and adherence to the Debt Management Plan by the City Council in 1989, which links our future debt capacity to population, tax base growth, and current level of general operating revenue.

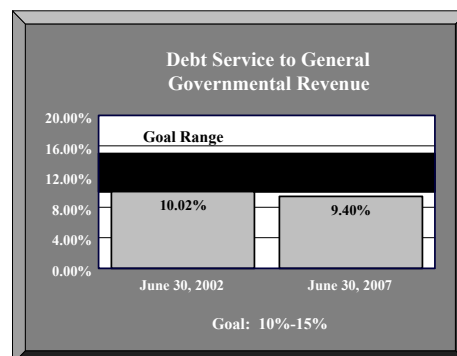
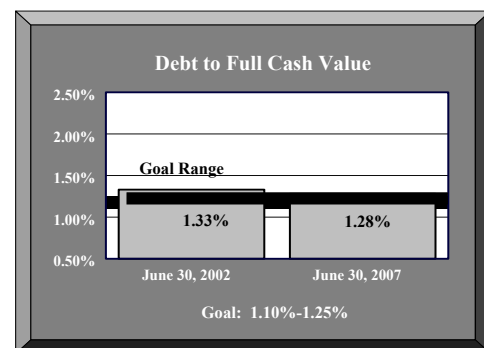
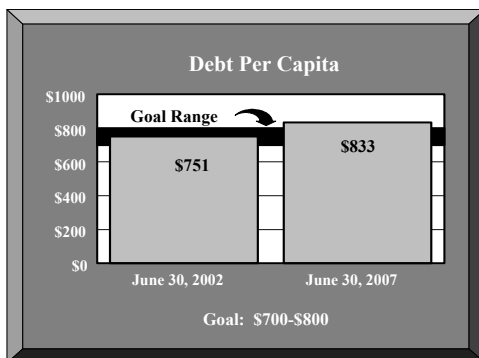
We update this plan annually based on these factors. For Fiscal Years 2001-03, we plan to issue \$12 million each year of tax-supported debt. Over the six-year capital program, we plan to issue \$72 million of tax-supported bonds, all in accordance with our Debt Management Plan.

Long-Range Financial Capacity

City staff prepares and updates the long-range financial plans and forecasts annually in preparation for developing suggested budget policies for City Council consideration.

The long-range forecast is for continued financial strength through FY 2004-05. A "Comprehensive Financial Plan" Section is included in the Biennial Budget which describes revenue and expenditures, issues, trends, and resource choices for all funds.

Debt Management Plan



Council Budget Policies for FY 2001-03

The operating budget embraces the following tenets that over the years have made the City financially strong:

- the budget *provides that current revenues are sufficient to support current expenditures* (“We are living within our means” without drawing down general fund reserves for operating purposes); the budget maintains the City's strong general fund reserves;
- the budget *provides for a General Fund contingency appropriation* sufficient to support emergencies and unforeseen circumstances, given past experience in the City;
- the budget *provides sufficient levels of maintenance and replacement dollars* to ensure that all capital facilities and equipment are properly maintained;
- the budget *requires no increase in the total property tax rate*. The tax rate for FY 2001-02 is \$1.35 per \$100 assessed valuation;
- the budget *maintains a competitive compensation and enhanced benefits* package, which is one of the finest anywhere.

With these basic tenets as a guide, combined with the direction provided by our comprehensive financial planning process, the following budget policy direction was followed for FY 2001-03:

1. Over the next five years, General Fund revenues will increase at a rate slower than projected expenditures. Equalizing the growth rate of both revenues and expenditures is essential to avoid future expenditure cuts or tax increases.

- Limit recurring supplemental operating expense additions to \$750,000 and non-recurring supplementals to \$1.0 million

within the General Fund (The long-term policy is to limit recurring General Fund supplementals to \$500,000 annually);

- Minimize midyear adjustments;
- Limit operating budget impacts to the Capital Improvements Program to \$750,000 annually for the biennial budget period of 2001-03;
- Provide 1% for enhanced benefits.

2. Based upon the Comprehensive Financial Plan, allocate anticipated surplus from the General Fund for non-recurring expenses as follows:

- Allocate 1/3 to the Rio Salado program for capital improvements;
- Establish reserves, with the balance of surplus revenue going to the Capital Improvements Program as pay-as-you-go financing.

3. The economy is in a slow-down period. Maintain the City's strong financial reserve program.

- Cap the Rainy Day Reserve at \$8 million;
Cap the Rio Salado Reserve at \$10 million;
- Maintain the General Fund fund balance at a minimum of 25% of General Fund revenues.

4. Although the past ten years have shown an average annual increase in assessed values of 3.8%, we are projecting the next 5 years average at 4.2%. This increased assessed value provides increased bond capacity.

- Increase the Debt Management Plan's G.O. Bond funding for tax supported debt to \$12.0 million annually beginning in FY 2001-02. No increase in the property tax rate (\$1.35/\$100 of assessed value) is needed to fund the increased capacity.

5. The City's revenue structure must be examined regularly to insure minor inflationary pressures do not go unnoticed requiring large percentage increases at some time in the future.

- Continue annual evaluations of enterprise funds (water, sewer, refuse and golf) with the purpose of recommending smaller percentage increases at routine intervals as opposed to waiting a longer period of time and requiring substantially larger percentage increases;
- Place fees for services on a regular review schedule as follows:
 - Year 1: Community Services fees (recreational, social services, library);
 - Year 2: Criminal Justice system fees;
 - Year 3: Development related fees (building permits, plan check, etc.).

6. Institute semi-annual budget reviews with the City Council.

7. Continue examination of current programs by each department for potential "sunsetting" or budget trade-off.

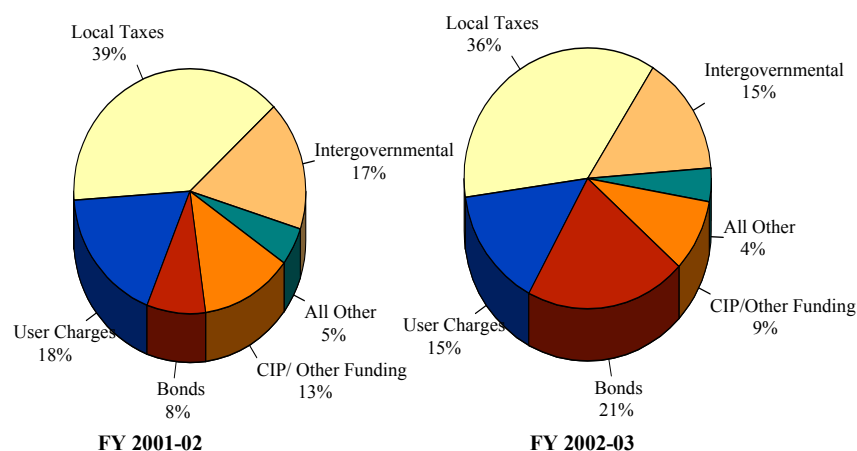
Strategic Issues

The City formed strategic issues teams to provide more strategic focus to resource allocation choices. The strategic issues and Council Committees for FY 2001-02 are:

- Technology Advancement and Community Development
- Human Services and People Improvement Program
- Finance and Economic Development
- Cultural and Community Programs
- Neighborhood Enhancement and Public Safety Community Partnerships
- Transportation Committee of the Whole
- Rio Salado Committee of the Whole
- Ad Hoc Committee on Human Relations

The goal of each strategic team is to delineate long-range goals, formulate a cohesive strategy for each of the defined areas, and develop action plans to advance the city toward those strategic goals. Basic services were also identified as a top priority in evaluating resource allocation choices.

Where the Money Comes From
by Source of Funds





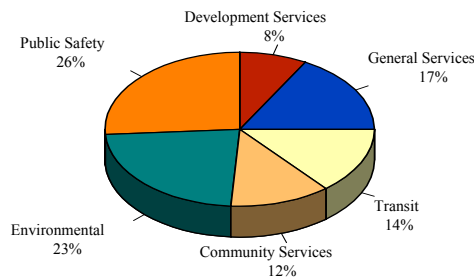
Income/Outgo

The pie charts below and on the previous page portray the City's income and outgo. Revenues are grouped by major category, while expenditures are shown by program area and by type of expenditure (such as personal services). Local taxes (e.g., city sales tax and property tax) continue to be the largest City revenue source, representing 39% of the FY 2001-02 total revenue budget, decreasing to

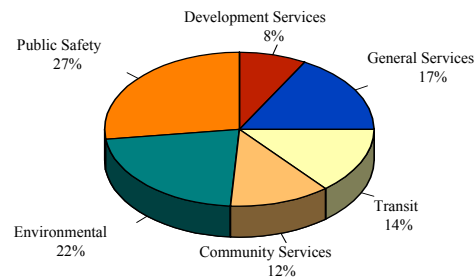
36% in FY 2002-03. Other major revenue sources include user charges (such as water service and refuse fees) and intergovernmental revenue.

The pie charts show a breakdown of City expenditures and where the money is spent by program. Public Safety and Environmental Health represent the greatest areas of program appropriation, accounting for 49% of the total financial program in each of the fiscal years 2001-03.

Where the Money Goes By Type of Program



FY 2001-02

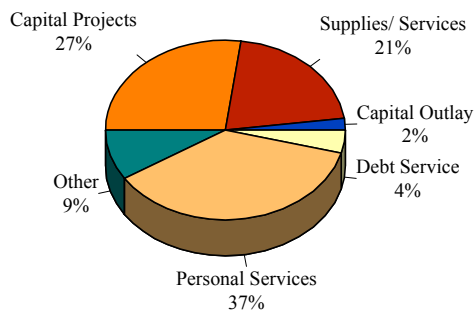


FY 2002-03

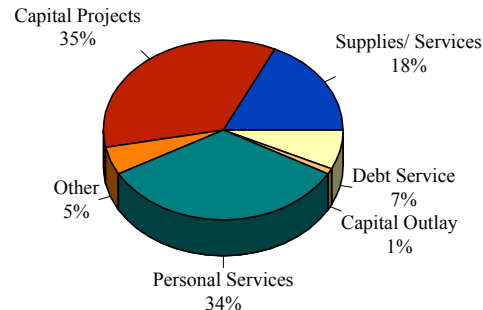
The final chart portrays budget appropriations by line-item category. As you may expect with a service-type organization, Personal Services

(salaries, wages and benefits) represent a large portion of the total financial program.

Where the Money Goes By Line Item Category



FY 2001-02



FY 2002-03



Conclusion

The City of Tempe has a long history of maintaining a high quality of service to its citizens. Whether these service levels fit the “basic service” definition or a “quality of life” definition, the City seeks a balance to provide services to all its residents, and at the lowest possible cost.

The adopted biennial budget for FY 2001-03 reflects the commitment to maintain these high levels of service amid fluctuating economic uncertainties.

Maintaining the City’s excellent financial situation is a top priority of the City Council and staff. As such, we will continue to focus on the City’s Comprehensive Financial Plan to model future financial scenarios. Limiting recurring General Fund operating expenses in future years will be a key factor in our scenario planning.

The adopted biennial budget reflects the Council’s policy of preserving Tempe’s strong financial position by maintaining strong fund balances and reserves, attracting and retaining high quality staff with highly competitive salaries and benefits, adding new programs cautiously and making decisions within the context of our comprehensive financial plan. The budget asserts our commitment to meet and exceed our community’s high expectations and to continue to meet these needs at the lowest possible cost to our citizens.

With final budget adoption, I want to thank the Mayor and City Council, citizens of Tempe and City staff for their time and effort throughout this budget process.

Respectfully submitted,

Will Manley, City Manager



MISSION:

To work with each other and the community to make Tempe the best place to live, work, and play.

VALUES:

We value...

People- We appreciate the talents of each person and encourage responsible decision making at the most appropriate level. We recognize the importance of personal and professional development.

Creativity- We encourage imaginative problem solving, innovation, resourcefulness and responsible risk taking.

Quality- We provide superior services and are committed to continuous improvement. We are attentive to the changing needs of the people we serve.

Integrity- We are honest, accountable and trustworthy.

Openness- We are accessible and work as a team by sharing information, ideas, resources and responsibility.

Respect- We welcome individual and professional differences and treat everyone with dignity, courtesy and sensitivity.